

Construction of transport and energy networks in the Baltic region as an impetus for regional development

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THEORY AND PRACTICE OF NETWORKING



TRANSPORT AND ENERGY NETWORKS IN THE BALTIC REGION AS AN IMPETUS FOR REGIONAL DEVELOPMENT

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In the light of some new aspects of the EU functioning, particularly, the recovery from the 2008—2009 global crisis, transportation and energy development projects are coming to the forefront in the Baltic Sea region. At the same time, there is a need to consider EU's recent adoption of a common seven-year financial programme (2014—2020), which serves, in effect, as the Union's budget. Given that, one may conclude that the countries of the Baltic Sea region are entering a new stage of their development.

The authors analyse the role and significance of transportation and energy projects as an instrument of economic development. Having studied the largest transport and energy projects in the Baltic region, the authors show that the new infrastructure networks supported the investment expansion of Swedish and Finnish companies into the post-communist countries of the Baltic Region, which in its turn, allowed Nordic investors to expand their domestic markets.

The analysis also shows that the experience of private businesses proves a recent theoretical concept — the pyramid of regional development factors. As a result, the actual regional policy of the EU cannot be considered in the narrow sense of the Cohesion Policy alone.

Key words: Transport networks, energy networks, Baltic Region, EU Cohesion Policy, regional policy, regional development

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Over many years, the European Union has been pursuing a supranational regional policy aimed at convergence of the socioeconomic development of EU member states and their regions. At the same time, the key indicator for classifying a territory as a problematic one in the framework of the so-called EU Cohesion Policy is GDP per capita. However, as

the 2008—2009 global economic crisis and the Eurozone sovereign debt crisis showed, the short-term success in GDP per capita convergence should not deceive anybody — sustainable development of the EU periphery territories can be ensured only through the transformation of a number of regional development factors. One of the efficient tools to attain this goal is implementation of transport and energy infrastructure construction projects.

Engineering infrastructure as the key factor of regional development in the Baltic Sea region

The year of 2014 is the beginning of a new 7-year financial period in the EU, which entails, among other things, a revision of the principles of the EU Cohesion Policy. Alongside numerous changes aimed at increasing the economic efficiency of this policy, its basic principles remained similar to those characteristic of 2007—2013. For example, problem-prone regions are identified on the basis of GDP per capita (PPP). At the same time, the GDP level determines not only the volume of allocated funds, but also the amount of co-financing by the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Apart from the traditional group of less developed regions, whose GDP is below 75 % of the EU average, there is a transition group with GDP per capita of 75—90 % of the EU average (earlier, the 90 % threshold was of relevance only to the Cohesion Fund, whereas the ERDF and ESF identified eligible regions in a different way). As before, the less developed regions are represented in the Baltic region by Estonia, Latvia, Lithuania, and some Polish voivodeships. The German state of Mecklenburg-Vorpommern and East Finland belong to the transition group [7].

Priorities of supranational regional policy of the EU are still broad and unclear. For example, the ERDF is planning to contribute to the economic, social, and territorial cohesion of the European Union through reducing interregional disparities in nine areas. Special attention is paid to supporting R&D and innovations, improving access to ICT and its quality, mitigating climate change and transition towards a low-carbon economy. The ESF has identified four priority areas, the most important of which is increasing employment and supporting labour mobility. At the same time, our calculations based on reports on expected expenditure on the identified areas show the absence of common EU financial priorities. For some regions, the above-mentioned four priority areas appearing at the bottom of the list (for instance, telecommunication, energy and transport infrastructure — ranked sixth by the ERDF) may prove to be the major ones.

In our opinion, such flexibility of priorities within the EU Cohesion Policy is an advantage. To a large degree, it is a product of the aspiration to take into account specific problems faced by each region. Several years ago, experts identified new threats to regional development, which the EU will face more and more often in the decades to come. It helped compile a common list of cohesion policy priorities [13]. However, all efforts to actively involve local authorities into the regional policy implementation do not produce the desired effect in many EU periphery regions. Unprofessionalism of local officials does

not lead to the development of tools and methods which are unique for a particular region, but rather to inept adaptation of the approaches of more developed territories, which are unsuitable for backward regions [4].

As recent research of Russian political scientists specialising in regionalism shows, there is a pyramid of regional development factors (by analogy to the pyramid of needs). The hierarchy of these factors suggests that the most complex ones are activated only if the basic factors are sufficiently favourable for economic development. So, O. V. Kuznetsova identifies five levels of the pyramid of regional development factors. The innovative activity of population, which is increasingly encouraged by the EU, is placed at the top of the pyramid (such 'inertial' factors as environmental and climatic conditions and resources are at the bottom of the pyramid). Innovative activities can be encouraged in highly developed regions, but they can hardly become the development drive in regions bereft of a sufficiently dense infrastructure network (which is the second level of the pyramid together with the population distribution system). Neither do they work in the regions characterised by an 'old' industry-specific structure, which does not require significant expenditure on R&D (the third level) [3].

The Baltic macroregion may serve as an excellent illustration of this concept. On the one hand, after the 2004 EU enlargement, all Baltic countries (except the Russian territories) became members of the common economic space of the EU. On the other hand, certain Baltic regions differ not only in the level of economic development, but also in their industrial specialisation and the infrastructure development level. Although Sweden lags behind smaller countries of Western and Central Europe in the density of its transport infrastructure (especially modern one) due to the climatic conditions and low population density, the country is well ahead of the most developed regions of Lithuania, Latvia, Estonia, and the coastal voivodeships of Poland (see table).

**The availability of transport infrastructure in the countries
and regions of the Baltic macroregion as of 2008 (km / 1,000 km²)**

Country/region	Railroads	Railroads with two or more tracks	Motorways	
			high-quality	other
Lithuania	27	5.8	4.7	1236
Latvia	37.3	4.7	—	1026
Estonia	20.3	2.4	2.3	1289
Finland:	17.5	1.7	2.2	231
Western and Southern Finland Åland Islands	26.9	5.1	5.8	353
Northern and Eastern Finland	12.9	—	0.4	172
Sweden:	25	4.1	4.1	219
Stockholm	58.2	34.6	38.4	367
Eastern Central Sweden	43.8	15.3	12.3	366
Småland and islands	32.4	5.7	5.6	381
Southern Sweden	63.2	14.6	20.2	619

End of the table

Country/region	Railroads	Railroads with two or more tracks	Motorways	
			high-quality	other
Regions of Western and Northern Sweden	19.7	1.6	1.6	165
Denmark	49.5	21.5	26.2	1675
Germany:	105.8	53	35.4	611
Schleswig-Holstein	81.7	31.6	32.3	593
Mecklenburg-Vorpommern	66	22	23.2	407
Other states	110	56.3	36.5	627
Poland:	64.6	27.9	2.4	1223
West Pomeranian Voivodeship	53	18.4	1	783
Pomeranian Voivodeship	68.1	19.6	3.6 (0 in 2007)	1083
Warmian-Masurian Voivodeship	50	12.4	0	892
Other voivodeships	66.8	31	0.4	240
<i>For comparison</i>				
Netherlands	69.5	47.7	62.2	3199
Belgium	117.2	100.9	57.8	3877
Czech Republic	121.6	24.2	8.8	697
Hungary	83.1	14.5	13.7	2096

Source: calculated by the authors on the basis of Eurostat data (Road, rail and navigable inland waterways networks by NUTS 2 regions. URL: <http://epp.eurostat.ec.europa.eu>).

Poor development of transport and energy infrastructure of certain Baltic region countries in comparison to the EU leaders is consistent with a lower GDP per capita, which accounts for increased attention to the development of infrastructure networks in the Baltic macroregion. At the same time, such projects are financed not only in the framework of the supranational regional policy of the EU; it tends to support smaller projects in the framework of comprehensive regional programmes).

The legal framework of infrastructure development in the Baltic Sea region

Three documents can be considered as defining the status of transport and energy networks of the Baltic macroregion: *The EU Strategy for the Baltic Sea Region* adopted in 2009, the *Declarations of the Second Pan-European Transport Conference* held in Crete in 1994 (additions were made at the next conference in Helsinki in 1997), and the *Third Energy Package*.

It is reasonable to focus on the EU Strategy for the Baltic Sea region [9], since it is not a European document common to all EU members but the one specifically tailored for the Baltic Sea region. Its authors, as well as independent experts interpret the Strategy quite broadly — as a conceptual document for the complex development of the Baltic Sea region. For in-

stance, N.V. Smorodinskaya sees the Strategy as a precursor of the closely related network economy and cluster theory. She emphasises that the adoption of the document is the first and a new step in the conceptual framework of the EU functioning. It manifested in the replacement of the supranationality principle of integration processes with the cluster one [5]. EU scholars strive to prove that the Strategy is not a devaluation of the pan-European integration principle, but rather an example of a new strategy for integration through regionalisation. They believe that this document does not give the Baltic countries full control of the region, but rather increases and extends the controlling functions of the European Union through granting it the rights to establish contacts and hold dialogue not only with national governments but also with local authorities (regions of certain countries) [1].

At the same time, it is important to take account of the fact that the development and adoption of the Strategy coincided with the global economic crisis. Moreover, this document was ratified almost simultaneously with the detailed EU programme for the Baltic Sea region for 2007—2013 [15]. In this light, the Strategy seems to be a new conceptual approach of the EU, which suggests placing financial and organisational responsibility for the economic conditions of the investment countries, especially smaller and less diversified ones, on investing states. It is not a coincidence that the Baltic macroregion, where the Nordic countries are expected to take responsibility for resolving the crisis in the Baltics, was chosen as a pilot region. In the framework of the corresponding EU programme, current projects can be divided into four groups — energy, water, innovation, and transport.

Motorway and railway projects

The best-known project in the Baltics is *Via Baltica*. It focuses on the functioning of a motorway included in the system of pan-European transport corridors approved at the conference in Crete in 1994 for the accelerated development of transport infrastructure in Central and Eastern Europe [11]. It is a part of European route 67 (Helsinki-Prague) stretching from Tallinn via Riga and Kaunas to Warsaw and almost repeats the railway route known as *Rail Baltica*. The latter connects Helsinki with Warsaw but, unlike *Via Baltica*, stretches further to Berlin. Finland and Estonia are connected by ferries crossing the Gulf of Finland. The possibility of constructing an undersea tunnel is also being considered. Within the transport corridor classification, both routes — *Via Baltica* и *Rail Baltica* — comprise Pan-European Corridor I, which also includes a branch road to Kaliningrad. At first, *Via Baltica* was not a responsibility of the EU, but, in the end, the European Union took over 80% of financing.

Participating countries differ in their attitude towards *Via Baltica*. The most interested parties are Estonia and Lithuania. The former is interested in *Via Baltica* as an additional channel of economic integration with Finland, whereas Lithuania strives to control a part of transit cargoes crossing the Baltic. It is worth noting that Lithuania's Kaunas has a competitive advantage: it can reduce the distance to the Baltic coast by a third in comparison to other Baltic States and makes it possible to opportunely redirect cargoes elsewhere.

Lithuania plans to develop an intermodal terminal of European significance. Poland is stalled by environmental concerns, since *Via Baltica* crosses nature conservation areas. Latvia's interest mainly concerns with the motorway access to Kaliningrad and Gdansk — the branch called *Via Hanseatica*.

Another motorway project strengthening connection between Scandinavia and continental Europe is the Øresund Bridge running from Denmark (Copenhagen) to Sweden (Malmö). The project became one of the 30 priorities of the European Commission (No. 11) in the framework of the *TEN-T* programme (Trans-European Transport Networks) and the first one that has been fully implemented [14]. This dual carriage bridge-tunnel supports two railway tracks beneath four road lanes running over the Øresund Strait. Alongside the Øresund Bridge, the Nordic-Baltic transport link includes the Great Belt Fixed Link connecting three Danish islands. The project is part of route E20 running from the Irish port of Shannon to Saint Petersburg.

The project implemented by the beginning of 2000 was supported by private investors that received long-term loans guaranteed by the Danish and Swedish governments. Half of the managing companies working in Denmark and Sweden belong to these states. The project is expected to pay off by 2035. For passengers, the fare for using this route approached the ferry fare during the economic crisis. It is worth noting that the project laid the ground for the successful functioning of a Euroregion (unlike the still less successful Euroregion Saule based on *Via Hanseatica*) — a local type integration model developed by the EU in the framework of cross-border cooperation [2].

The abovementioned *Rail Baltica* project aimed at connecting railway networks of Finland, the Baltics, and Central European countries is another priority identified by the European Commission (project No. 27). Its expected financing structure is as follows: 50 % is provided by the EU in the framework of the *TEN-T* programme, 50 % is provided by the participants (predominantly, public investment in view of the type of ownership of most railway companies).

Special interest in the project was expressed by Lithuania, which insisted on the route cross Kaunas rather than port cities (as its neighbours did) being guided by two motives — turning Kaunas into a regional logistics hub and transporting oil. At the moment, oil is delivered to the refinery in Mažeikiai (North-West Lithuania) from a sea terminal in Būtingė by rail (161 km). From the point of view of economic logistics, it is easier to connect Latvia and Lithuania; the distance from Mažeikiai to Latvia is only 5 km. In this case, the delivery distance will be reduced to 30 km. However, it will be more economical to deliver oil to the refinery from the Latvian port of Liepāja, which will deprive the port of Klaipėda and Lithuanian Railways of their significant income.

The *Rail Baltica* project was not completed in due time (2007—2012). Consequently, it had to undergo some rebranding. In 2013, the EU transformed it into *RBGC* — *Rail Baltica Growth Corridor* [12]. At the same time, the EU Delegation to Russia initiated and financed a study into the possibility of involving Saint Petersburg into the project with the prospect of introducing Russian cargoes to the key intermodal centres of the EU.

The structure of financing remains the same: 50 % is provided by the EU in the framework of the *TEN-T* programme, and 50 % is provided by the par-

ticipants. The project is divided into three parts: Saint Petersburg — Helsinki — Tallinn; Latvia — Lithuania; Poland — Germany. The role of Estonia, its interest in the project is increasing. However, we believe, the project of connecting Saint Petersburg seems to be hardly feasible in view of the multi-functional port of Ust-Luga gathering steam but working at the moment at 1/3 of its capacity, to say nothing of the Saint Petersburg Sea Port and the diversified direct connection between Russia and Estonia. An important factor is to be taken into account: beneficiaries of the terminal in Ust-Luga are leading Russian companies enjoying the status of transnational companies and being major suppliers of export cargoes. Moreover, the RBGC can be viewed as a competitor to the port of Ust-Luga.

At the same time, the European Commission is promoting a project entitled *Rail Baltica 2*. The project aims at extending the RBGC project to the ports of Northern Italy. So far, it has been discussed only as an idea. The first presentation of possible routes took place in the summer of 2013. The Baltics are especially sceptical about *Rail Baltica 2* from the perspective of cargo and passenger flows. Apparently, in view of the attitude of the Baltics, the European Commission declared its readiness to take over 80—85 % of financing. However, it does not impress Estonia and Latvia, whose officials are critical of the project because its operation will become the responsibility of national, state-owned railway companies, and thus will become an additional burden for the state budget, since the Baltics are convinced that the *Rail Baltica 2* route will be definitely unprofitable. We believe that both projects — *RBGC* и *Rail Baltica 2* (also with a connection to Saint Petersburg) — are likely to gain practical significance in a long-term perspective in case the Northern Sea Route is put into full operation.

In a short-term perspective, the development of the *RBGC* and *Rail Baltica 2* routes will have ambiguous effect on the Baltic macroregion. It will require redistribution of cargo and passenger flows among the countries, as well as between rail and air transport. At the moment, cargoes and passengers, which the abovementioned railway projects can make a claim for, are transported by road, since (transit) capacity should not be considered insufficient. One can hardly speak of a prospect of a radical increase in economic activity in the region, which would require extra logistics. Moreover, the costs associated with railway and motor transport have not been compared yet. It is possible that the delivery price will increase. At the same time, the role of private business, which accounts for a significant percent of motor transportation, will decrease.

Main gas pipelines in the Baltic region states

Although gas pipelines can greatly affect the development of a number of territories in the Baltic region, they hardly have a direct bearing on the regional policy. As it will be shown below, the economic and political component of almost all projects goes beyond the borders of the Baltic Sea region.

The already existing network can transform their status under the influence of the EU *Gas Directive* of 2009 suggesting ownership unbundling of gas production from transportation (gas networks) and distribution [8]. Moreover, this Directive has become another irritant in the Baltics-Russia relations.

Although the Directive contains an exemption for the energy market of Latvia, Lithuania, Estonia, and Finland, which is acknowledged as a natural isolated market, and thus allows these states to apply the rules of the Directive voluntarily, their reactions differed significantly.

Latvia decided to take advantage of this exemption by formulating the factor and time framework for the future implementation of the *Gas Directive*. Latvia will commence liberalisation when the pipeline between Lithuania and Poland (at the design stage today) starts operating, or a terminal ensuring liquefied gas import (also at the design stage) is constructed. Another benchmark is the year 2017, when the licence of *Latvijas Gāze* will expire. *Latvijas Gāze* is the monopolistic gas trader in the Latvian market (34 % of shares owned by Gazprom, 47.2 % by the German *E. ON Ruhrgas*, 16 % by *Itera Latvija*).

The until recently incumbent Conservative party (in opposition since October 2012) steered through the Parliament a strict plan of the Third Energy implementation, which suggests that Gazprom lose 2/3 of its positions in the Lithuanian market. It is expected that *Lietuvos dujos* (37.1 % owned by Gazprom, 38.9 % by *E. ON Ruhrgas*, 17.7 % by the Lithuanian Ministry of Energy), which is dominating the market today, will be reorganised in such a way that the Russian company will fulfil only the function of its supplier. The Lithuanian state will become the owner of the pipeline, i. e. alienation of Gazprom's property will take place, whereas a private Lithuanian company will be contracted with gas distribution.

Similar actions were taken by the incumbent Estonian Reform Party, which presented a project in 2010, according to which the Estonian gas trader *Eesti Gaas* (Gazprom — 37 %, *E. ON Ruhrgas* — 33.7 %, Finnish *Fortum* — 17.7 %, *Itera Latvija* — 9.9 %) has two years to sell the pipelines; if this condition is not met, the state will launch the compulsory purchase procedure. Without consulting the shareholders, the Estonian government has assessed the company's networks and announced the price that the state is ready to pay for the main pipelines — approximately 40 million euros, although their market price is much higher.

The prospects of further changes in the Baltic gas market become evident when one considers the project of a gas pipeline between Estonia (Paldiski) and Finland (Ingå or Vuosaari) across the seabed of the Gulf of Finland, which was called *Balticconnector*. At the first stage, it will carry gas from the Latvian Inčukalns gas storage facility, where the Baltics collectively own gas. In the future, it is expected to supply gas to Finland from the to-be-constructed LNG terminal in Estonia (Muuga). The USA and Qatar are considered as possible suppliers. The cost of *Balticconnector* is estimated at 100 million euros and it will be financed by private investors (Finnish *Gasum* and Estonian *Eesti Gaas*) with the EU support. The pipeline is expected to be put into operation in 2015. If necessity arises, it can be used in reverse mode [6].

The extension of the *Nabucco* pipeline to Lithuanian customers via Eastern Poland, which is being lobbied by Lithuania, can also be considered a regional pipeline. In case this idea came to fruition, Lithuania planned to become a transiter of natural gas to Latvia, Estonia, and Finland. Lithuania ex-

pected the Nabucco extension project to be financed through establishing a company combining private and public capital of the Baltics and Finland alongside the simultaneous inclusion of this project into the list of EU priorities. The 2008—2009 global crisis made this project irrelevant.

As to a broader regional context, a project entitled *Baltic Gas Interconnector* aimed at connecting the gas systems of Germany, Denmark, and Sweden in such a way that they could be supplied with gas from the North Sea fields. The project was being developed in the mid-2000s. The project was expected to be implemented by the countries' companies working in the related fields. The project has been suspended, however, a decrease in demand for natural gas caused by the economic crisis did not withdraw the project from the agenda.

A project of a gas pipeline between Denmark and Poland entitled *Baltic Pipe* and aimed at supplying the Polish economy with Norwegian gas via Denmark was considered at the same time and according to an almost identical algorithm. It shared the fate of the *Baltic Gas Interconnector*. A certain starting point for the construction and functioning of the *Baltic Gas Interconnector* and *Baltic Pipe* pipeline had to be the *Skanded* pipeline, which was designed to carry gas from Norway to Denmark and Sweden for re-exportation. The project has also been suspended due to the economic and financial instability both in the region and in the world in general. It seems that the implementation of the Russian *Nord Stream* project has become strong completion to the three gas pipeline projects described above.

Regional power links

The integration of the power systems of Finland and Estonia — *Estlink* — is traditionally seen as the beginning of the accelerating transformation of the Baltic power market infrastructure consisting in its reorientation towards Northern Europe. The cable laid on the seabed of the Gulf of Finland was put into operation in 2007. The project was initiated by Finland and implemented by *Nordic Energy Link* on the basis of the public-private partnership principle (on the part of the Baltics, mostly, in the field of construction and operation of power infrastructure). The shareholders of *Nordic Energy Link* have reached a preliminary decision on selling *Estlink* to private managing companies from Estonia and Finland — *Elering* and *Fingrid*.

At the moment, the power supplied via *Estlink* from Finland is mostly consumed in Estonia. In summer, *Estlink* services are also used by Latvia, most of whose generating capacities are hydropower plants, since, in this time of year, rivers shallow and the local power production reduces. After the Ignalina NPP was closed in 2012, Lithuania also receives power via *Estlink*. Both these circumstances contribute to stronger Finnish presence in the Baltic power market and increase the role of Estonia, since the Estonian company *Eesti Energia* is a beneficiary of *Estlink*.

In 2009, the Finnish company *Fingrid* and Estonian *Elering* devised a plan for laying another undersea cable between Finland and Estonia dubbed *Estlink 2*. If the first link connects, in effect, Helsinki and Tallinn, the second

link almost reaches the Estonian-Russian border [16]. In 2010, the necessary endorsements were received and contracts with future consumers signed. Most funding was provided by Fingris, which ensured rapid construction. *Estlink 2* is expected to be put into operation in the end of 2012 with a perspective of an increase in power supply to Latvia and Lithuania.

Sweden, in its turn, expressed its intention to lay an undersea cable dubbed *NordBalt* (also known as *SwedLit*) between Nybro (Kalmar County, Sweden) and Klaipeda (Lithuania). At the project consideration stage, Latvia insisted on the construction of two independent converter stations in Lithuania and Latvia. However, Lithuania managed to secure the plan, according to which the converter station is built in Lithuania, wherefrom an additional cable might be laid to Latvia. In the first half of 2013, an agreement was reached. The project will be implemented by the Lithuanian-Swedish company *Litgrid*. The EU will provide 65 % of funding. *NordBalt* is expected to be put into operation in 2015.

Both projects are connected to the united power system of Northern Europe — *NordPool*. In case of full implementation of the *Estlink*, *Estlink 2*, and *NordBalt* projects, the Baltic power market will be almost integrated into the Northern European market. Alongside economic responsibilities, Northern European legal rules regulating access to the market and aimed at isolating this market from ‘strangers’ will come into force. At the same time, there is increasing competition between Swedish and Finnish power suppliers, since both countries strive to assume control over the whole power market of the Baltics: Finland approaching from the Estonian and Sweden from the Lithuanian direction.

There is also the Lithuanian-Polish project aimed at the development of power supply networks and linking them to Lithuania. The project was conceived at Lithuanian initiative when the Ignalina NPP was still operating and was aimed at exporting power from Lithuania to Poland. Now it is viewed as a possibility to ensure additional power supply to Southern Lithuania in order to create a counterweight to supply from Belarus. We believe that the Baltic energy projects should be considered, first of all, in the context of transport infrastructure development. The development of transport networks, especially electrified railway networks, will inevitably require an increase in power supply. In other words, one can speak of the parallel expansion of two markets — those of cargo flows and power supply — in order to ensure cargo and passenger traffic.

The Nordic countries are becoming an actual regulator of the latter market, since Lithuania, Latvia, and Estonia signed an agreement on joining the *NordPool* system. There are no factors resulting from the internal development of the Baltics that generate the need to increase transit capacities in the Baltics. New energy intensive businesses are not emerging, and the existing ones do not seem to be expanding, since investment into real economy is not increasing.

The only incentive is a possible increase in power consumption as a result of the partial or complete implementation of the *RBGC* and *Rail Baltica 2* projects. Such interconnection between the cargo flow and power markets

should ensure stable income for the Nordic suppliers of the latter. In this sense, it does not seem coincidental that the EU strategy for the Baltic region addresses the development of transport infrastructure in the same section with the need to reform the power market. The processes initiated in both markets are capable of increasing GDP in a short-term perspective, however, they will not create longer-term prospects for the Baltic states.

* * *

The development of infrastructure networks can hardly be considered separately from investment in the Baltic Sea region. The Baltic, according to the Uppsala school of firm internationalisation, is a favourable target for Swedish, Finnish, and German investment [10]. However, it is dominated by Sweden and Finland. Support for infrastructure project development granted by the EU policy is of significant importance. Moreover, one can get an impression that it is Nordic investors that organise this support, since most decisions on reforming Baltic markets were made in the course of Sweden and Finland's EU presidencies. They also create the necessary propaganda atmosphere. For instance, the adoption of the Third Energy Package was accompanied by Swedish philippics against energy dependence on Russia.

An analysis of financing sources of large infrastructure projects in the Baltic region makes it possible to identify certain common features. As a rule, the major investor is the EU, whose contribution ranges from 50 to 80 %. In this connection, the project initiators strive to include it on the list of EC priorities. Another option is state participation — through purchasing the company's shares, implementing projects, or state guaranteed loans. In case of a positive outcome, the implemented projects are offered for privatisation.

Thus, the convergence of economic development of territories in the framework of the Baltic region contributes not to the abstract cohesion of the EU member states, but to quite tangible expansion of Northern European internal market through the post-socialistic countries that acceded to the Union in 2004. At the same time, Swedish and Finnish private businesses, as well as the national governments, understood much earlier than European officials or specialists in theoretical regionalism which regional development factors are to be addressed first in the periphery Baltic states. So, representing innovative economics, both Swedish and Finnish investors focused on the development of basic infrastructure in the Baltics.

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